



Mexico: Overview of Hotel Industry

Overview, Hotels, Rebuilding, Procurement Opportunities

Monica Martinez
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ID:136472

Summary

Mexico's hotel industry represents a solid business opportunity for U.S. exporters. These opportunities are being generated not only by foreign investment but also due to new hotel building and remodeling projects started by hotel chains as a way to become more competitive. Furthermore, the damage made by the hurricanes that hit Mexico last year, is still generating opportunities for hotel rebuilding. The Stan hurricane affected states such as: Chiapas, Veracruz, Oaxaca, Puebla, Guerrero and Hidalgo. On the other hand, Wilma caused severe damage to Cancun in Quintana Roo and the Yucatan peninsula area. Mexico's National Chamber of the Construction Industry estimates that foreign investment in the hotel industry will reach US\$4 billion during 2006. The Chamber said that private groups would invest US\$2.7 billion, while the government's rebuilding of the Cancun area would probably invest between US\$1.3 to US\$1.8 billion.

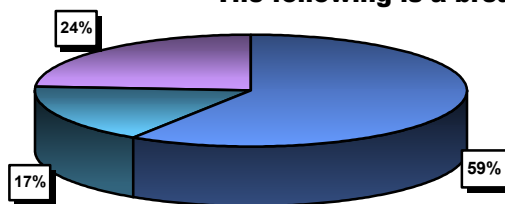
Market Demand

Mexico ranks as the world's eighth top tourism destination. Last year, about US\$10 billion were generated by the tourism sector which had around 20 million foreign visitors. Market estimation shows that a total of 13,060 hotels were registered in 2004, and it is expected that this number will reach 13,200 by 2006. Approximately 85 percent are small and medium-size hotels. The forecast is that by the end of 2006 there will be a growth of 3.57 percent for hotels and about 2.48 percent in hotel rooms. According to official data, the tourism industry generates more than 190,000 jobs per year and is one of the most relevant industries supporting Mexico's economic growth.

States with more hotels in Mexico are: Veracruz (1,097), Jalisco (1,011), Oaxaca (640) and Mexico City (621). There is a slight difference in terms of states with more hotel rooms in Mexico like: Quintana Roo (59,497), Jalisco (49,975), Mexico City (46,344) and Guerrero (25,276). This means that tourist destinations generally have a lower number of hotels but these hotels each have more rooms.

The Tourism Sector Contributes 8 percent of the Total GDP.

The following is a break out of this 8 percent.



GDP Miscellaneous = 59 percent

GDP Hotels = 17 percent

GDP Restaurants = 24 percent

The hotel equipment industry includes but is not limited to: cleaning machines, air conditioning equipment, washing machines, furnaces, television receivers, bath accessories, wallpaper, aluminum utensils, stoves, dishwashing machines, furniture, bedding, tool, cutlery, tableware, kitchenware, gym, athletic equipments, golf clubs, toiletries, glassware, ceramic sinks, tableware, porcelain, ceramic statuettes and ornaments, ceramic building materials including chimneys, building materials, tiles, miscellaneous textiles including linen, textile floor coverings, artificial flowers, feathers, art and antiques.

Furniture, lighting, bedding, linen and building materials are locally manufactured mainly by the micro and small to medium-size companies with less than 50 workers. The industry is spread out from the northeast to the central part of the country and almost 45 percent of it is concentrated in Mexico City, Monterrey and Guadalajara and beach tourism destinations such as Cancun and the Gulf coast.

Market Data

The hotel industry showed a significant investment improvement from 2003 to 2004 of US\$400 million. Due to the hurricanes that hit Mexico in 2005, the rebuilding work will generate more investment in the Peninsula of Yucatan (around US\$1.8 billion). The main U.S. competitors are Asian and European investors who have been increasing their market share in certain products such as furniture, bedding, roof, tiles and chimneys that are being imported from European countries such as Spain.

U.S. exporters need to take advantage of the closeness between the two countries and Free Trade Agreements such as NAFTA. In 2004, the total market for the hotel industry surpassed US\$8.1 billion. The total market size between January - October 2005 compared with same period in 2004, showed an increase of six percent.

Million US Dollars

| | 2003 (Jan-Dec) | 2004 (Jan-Dec) | 2005 (Jan-Oct) |
|---------------------|-----------------|-----------------|-----------------|
| Import Market | 6,374.70 | 6,998.94 | 6,842.48 |
| Local Production | 4,868.31 | 4,899.44 | 4,930.58 |
| Exports | 3,490.69 | 3,779.79 | 3,746.24 |
| US Imports | 4,324.06 | 4,533.85 | 4,310.08 |
| Total Market | 7,752.32 | 8,118.59 | 8,026.82 |

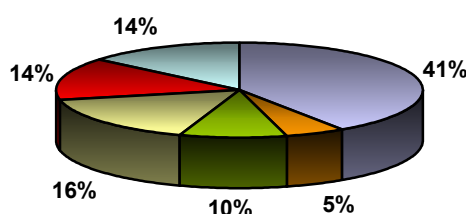
Sources: National Bank of Foreign Trade Atlas and the National Institute of Statistics.

This pie chart shows the Mexican Hotel Class Distribution percentage and the total numbers of hotels as per their classification.

Hotel Industry Growth

Hotels in Mexico showed a significant Growth climbing to 13,060 hotels with 515,904 rooms in 2004 nationwide.

| Hotel Class | Total Number |
|--------------------|---------------|
| No Category | 5,355 |
| 5 Stars | 1,828 |
| 4 Stars | 1,828 |
| 3 Stars | 2,090 |
| 2 Stars | 1,306 |
| 1 Star | 653 |
| Grand Total | 13,060 |



| Hotel Class | Percentage |
|-------------|------------|
| No Category | 41 % |
| Five Stars | 5% |
| Four Stars | 10% |
| Three Stars | 16% |
| Two Stars | 14% |
| One Star | 14% |

These are the major hotel groups with the number of hotels and rooms and value in US dollars.

| Investors | | Acquisition | | Value US Thousand Dollars | |
|-----------|--|-------------|-------|---------------------------|----------------|
| No. | Group | Hotels | Rooms | Total | Room / Dollars |
| 1 | Host Marriott | 4 | 1 797 | 276 000 | 154 |
| 2 | Grupo Empresarial Angeles (Camino Real) | 7 | 2 209 | 198 980 | 90 |
| 3 | Starwood (Westing Regina) | 3 | 908 | 133 000 | 146 |
| 4 | Occidental Hotels (Allegro Resorts) | 7 | 1 924 | 123 136 | 64 |
| 5 | Canadian Pacific (Pierre Marques y Princess) | 2 | 1 363 | 122 670 | 90 |
| 6 | Hoteles NH | 4 | 1 325 | 106 000 | 80 |
| 7 | Strategic Capital (Four Seasons) | 2 | 380 | 97 180 | 256 |
| 8 | Familia Espinoza Iglesias (Quinta Real) | 6 | 431 | 72 016 | 167 |

| Investors | | Acquisition | | Value US Thousand Dollars | |
|--------------|---------------------------|-------------|---------------|---------------------------|----------------|
| No. | Group | Hotels | Rooms | Total | Room / Dollars |
| 9 | Familia Díaz | 5 | 1 110 | 35 454 | 32 |
| 10 | Hoteles Brisas | 2 | 703 | 30 000 | 43 |
| 11 | Barceló Hoteles & Resorts | 2 | 678 | 26 000 | 38 |
| 12 | Hoteles Sevilla Palace | 2 | 299 | 24 454 | 82 |
| 13 | Grupo Zacal | 3 | 552 | 19 250 | 35 |
| 14 | Others | 19 | 5 195 | 307 165 | 59 |
| TOTAL | | 68 | 18 874 | 1 571 305 | 1 336 |

Mexican hotels are divided into two major groups: the ones located near beach tourism destinations such as Puerto Vallarta, Puerto Escondido, Huatulco, Acapulco, Ixtapa, Cancun, the Riviera Maya, Cozumel, Isla Mujeres and those located in the urban areas. Both groups are selected as per hotel classes, which are described as follows:

Intelligent Hotels – These hotels are identified because they have state of the art technology systems for their operation. These hotels have replaced the traditional air-conditioning systems with cooling towers instead to reduce their energy cost up to 50 percent. They usually have integrated systems which join analog and digital systems to achieve an effective communication in their hotels. The return on the investment is reflected in the energy-cost savings and the comfort they provide to their guests.

Grand Tourism – These large hotels are located in tourism destinations. The hotels usually have more than 1,000 rooms equipped with air conditioning, TV satellite, phone, voice mail, bar server, coffee pot, safety box, iron, bath robes, jacuzzi and hair dryer. Some of their facilities include at least one swimming pool, gym, spa, beauty shop, and restaurants and bars.

Resort Hotels with Spa – These hotels are located in attractive and natural tourism destinations. Their architecture is associated with regional ancient civilizations such as Mayan but may add other architectural styles such as contemporary modern style. Their clientele are groups and couples that like adventure with sophistication and comfort. The attractions vary depending on the region and some might offer golf facilities, tennis or scuba diving. These hotels, depending on the natural surroundings, also arrange other activities like riding and walking.

These resorts have only suites, which are built separately with a private swimming pool. The rooms are equipped with entertainment liquid crystal display screens, movies menu and music players including DVD, CD and MP3. Besides, the internal decoration is related to a Mayan atmosphere. They also might have restaurants with regional and international gourmet cuisine and a lobby bar.

Boutique Hotels – Historical classic buildings, remodeled into boutique hotels. They usually have less than 30 rooms, equipped with internet access, safety box and air conditioning. The hotels have services such as laundry, concierge and stores. Some of these boutique hotels organize art exhibitions in order to attract possible clients to their hotels.

Five Star Hotels – These hotels are usually located in the high-income level areas throughout Mexico, close to main avenues and shopping centers. The hotels have master suites, junior suites and classic rooms with assorted services: laundry room, concierge, front desk, lobby, gym, swimming pool, rooms for events with 30 to 250 people capacity, business center with fast Internet connection, fax machines and clerical services. They usually have at least three restaurants and a bar with assorted cuisines.

Four Star Hotels – These hotels have less than a hundred rooms and are oriented for business travelers. The rooms include bar server, air conditioning, safety box, voice mail and coffee pot. Among the facilities of these hotels, they have a restaurant, lobby bar, a room for events, laundry, internet connection and clerical services.

Hotels of Limited Services – Brand hotels with franchise memberships of recognized hotels, built within limited areas. Their facilities include: One restaurant bar with a selected menu, small meeting rooms for up to 30 people;

one business center with computers, fax, internet and clerical services; a small gym with a few pieces of workout equipments, etc. Security systems such as sprinklers and pump water systems, connected to an electricity plant in case of emergency. These hotels are located near business areas such as industrial parks, cities, airport terminals, etc.

Three Star Hotels – Smaller hotels, having less than 100 rooms and a few suites. The rooms are equipped with phones, TV cable, radio, and room service. The suites have jacuzzi and safety boxes. They usually have one restaurant – bar. Among the facilities that these hotels provide to their clients is travel agency, car rental store, convenience stores, nanny service, laundry and safety boxes.

Two Star Hotels – Hotels with up to 50 rooms including a few suites which are equipped with air conditioning, TV satellite, and phone. These hotels also have a restaurant, car rental store, swimming pool, laundry, safety box at the reception only and no Internet.

One Star Hotels – Hotels with less than 50 rooms and limited services but convenient rates with no internet access, no laundry, no air conditioning, etc.

No Category hotels - These hotels include motels, cottages, bungalows and others with limited services. Nevertheless, these hotels represent 41 percent of the total hotel market share.

Best Prospects

Procurement practices in equipment and products vary from the type of hotel buyer and their clientele. The clients select the hotels located in cities by the way they are ranked, from five stars to no category. Descriptions of ranked hotels as per their class were mentioned above.

Due to the recent hurricanes, hotels located offshore in tourism destinations, are more aware of natural disasters. Some of those hotels are considering buying materials that would help them to more efficiently face the hurricanes' impact. Some examples of these materials are: safety glass for windows, PVC window frames, cleaners for humidity, and cleaners for furniture, among others. In comparison, the hotels located in urban areas are more focused on the needs of their business clientele.

Customers' preferences are changing rapidly; one example is the spa industry, which has duplicated the number of establishments during 2005. The spa sector showed a growth of 30 percent in 2005 compared to a 10 percent growth in 2004. According to the President of the Mexican Association of Spas, there are 250 registered businesses; 35 percent of those spas are located in tourism beach destinations, 20 percent are located in the central area of the country and 25 percent is spread out nationwide.

Key Suppliers

Even though the United States is the second largest partner of Mexico, there are other players gaining import market share. These players are mainly from Asian and European countries.

Major Foreign Competitors Share of the Import Market

| 8422 Cleaning Machines | | | 841510 Air conditioning machine | | | 8450 Washing Machines | | |
|------------------------|------|------|---------------------------------|------|------|-----------------------|------|------|
| Players | 2003 | 2004 | Players | 2003 | 2004 | Players | 2003 | 2004 |
| Italy | 29% | 26% | USA | 48% | 48% | USA | 68% | 68% |
| USA | 28% | 25% | S. Korea | 23% | 20% | S. Korea | 19% | 17% |
| Germany | 15% | 18% | China | 8% | 15% | China | 4% | 6% |

| 94 Furniture and Bedding | | | 70 Glass and Glassware | | | 4814 Wallpaper | | |
|--------------------------|------|------|------------------------|------|------|----------------|------|------|
| Players | 2003 | 2004 | Players | 2003 | 2004 | Players | 2003 | 2004 |
| USA | 72% | 65% | USA | 50% | 52% | Canada | 16% | 33% |
| China | 19% | 18% | China | 5% | 6% | USA | 27% | 23% |
| Japan | 5% | 8% | Brazil | 4% | 6% | U.K. | 7% | 7% |

| 8528 Television Receiver | | | 6905 Roof, tiles and chimneys | | | 63 Misc. Textiles including linen | | |
|--------------------------|------|------|-------------------------------|------|------|-----------------------------------|------|------|
| Players | 2003 | 2004 | Players | 2003 | 2004 | Players | 2003 | 2004 |
| USA | 72% | 65% | Spain | 54% | 59% | USA | 51% | 43% |
| China | 7% | 13% | USA | 19% | 26% | Portugal | 5% | 12% |
| Japan | 10% | 4% | Brazil | 24% | 5 | Spain | 10% | 9% |

Note: Available statistics include consumer and industrial equipment as a whole. It is currently not possible to break out consumer data from industrial data.

Prospective Buyers

Large hotels located near the borders and beach tourism destinations prefer to directly import equipment and products from the country of origin. High quality, competitive prices and convenient delivery lead-time are their main requirements. However, in order to obtain adequate after-sale services and maintenance, the hotels also purchase from local distributors in their areas.

Market Entry

Even though large hotel chains have purchase offices in Mexico, their equipment acquisition buying decisions are often made in their headquarter offices in the United States or European countries depending on the country of origin. These hotels are always looking for new products, services and equipment to keep costs down. These hotels look for suppliers that can provide the required equipment on a timely manner as well as support for the installation. Another important factor for them is customer service and warranty for the purchased equipment.

One strategy to enter the Mexican market is to do it through a dealer or distributor. A good distributor should have well trained technicians on their staff to provide adequate service to their clients. A well-equipped show room is also desirable since there are a lot of competitors. Another strategy could be to hire an export representative company in the United States. These types of companies usually represent different brand names and have a dealer network in Mexico.

Dealers in Mexico handle several brands of hotel and restaurant equipment generally by regions. There are only a few that have national coverage with at least four branches in different regions.

Market Issues & Obstacles

There are no barriers to import of U.S. equipment for this sector. However, electric equipment should meet the European CE requirements to be considered meeting Mexican regulations. The UL certification is not sufficient. Also, it is very important that the equipment to be imported comply with the NAFTA agreement to get the benefits on reduced duties.

According to the current regulations, purchase of pre-owned hotel furniture is tax exempt only if the hotel, which imports them, is the end user as well. The furniture should comply with NAFTA regulations and could include furniture, wardrobes, bed linen cabinets, decorative small tables, beds, cribs, screens, rolling tables for hors d'oeuvre or liqueurs including those with heating systems.

In Mexico, 85 percent of the hotels might require financing for their equipment acquisitions. A number of Mexican Banks have master agreements with Ex-Im Bank and can be a good source of financing for U.S. equipment.

Upcoming Trade Events

Expo Hotel

14 to 16 June 2006

Convention Center in Cancun, Quintana Roo – Mexico.

<http://www.exphotelcancun.com>

International Show for the Hotel, Restaurant, Bar and Discothèque Industries' suppliers. During the 9th edition of the show, it hosted around 6,000 visitors. The Agricultural Trade Office (ATO) Mexico City participated with a US Pavilion with different US Cooperators and private companies for the food industry.

Expo Restaurantes

5 to 7 July 2006

World Trade Center, Mexico City.

<http://www.exporestaurantes.com.mx>

This event is designed for equipment and furniture manufacturers as well as for Agribusiness producers offering a wide variety of raw materials, fresh food, frozen food, food service, wines and liqueurs, non-alcoholic beverages, furniture, decoration, equipment for restaurants and bars, among others. Latest statistics showed that around 14,000 potential buyers visited this fair.

Expo Rest Hotel – Abastur Show

4 to 6 October 2006

Centro Banamex

<http://www.abastur.com.mx>

This is one of the most expensive shows worldwide. It gathers the whole industry including equipment and furniture manufacturers, agribusiness producers and also suppliers of fresh food, frozen food, food service and wines as well as special chef competition for best dishes and ice decorators. Participant Chefs usually belong to big hotel resorts and well-known prestigious restaurants.

Resources & Key Contacts

Mexican Association of Hotels and Motels

<http://www.hotelesmexicanos.org>

Secretariat of Tourism

<http://www.sectur.gob.mx>

National Fund for Tourism Promotion

<http://www.fonatur.gob.mx>

Mexican Tourism Promotion Council

<http://www.cptm.com.mx>

Mexican Association of Spas

Website: n/a Phone: 011-52-55-9180 1700

National Bank of Foreign Trade (Trade Atlas)

www.bancomext.com.mx

For More Information

The U.S. Commercial Service in Mexico City can be contacted via e-mail at: monicamartinez@mail.doc.gov; Phone: [011-52-55-5140 2628]; Fax: [011-52-55-5566 1111] or visit our website: www.buyusa.gov/mexico

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